

2021-23 Biennial Budget



Governor's Proposed Budget Fiscal Years 2022 and 2023

January 13, 2021

State Budget Committee

Governor Eric J. Holcomb

Principles of Fiscal Discipline

- Balanced budget
- Fund critical services to Hoosiers
- Restore and maintain prudent level of reserves
 - Prudent use of one-time funds
- Maintain AAA credit rating

Budget Development Process

- Budget development instructions were sent out this summer
- Statutory deadline for Budget submission is September 1st
- We have met with every agency to review and understand their requests
- Economic outlook, revenue forecast, and Medicaid forecast will be on December 16th
- Statutory deadline for Budget presentation to the State Budget Committee is before the 3rd Monday in January (January 18th) but practically by Thursday, January 14th

Budget Development Details

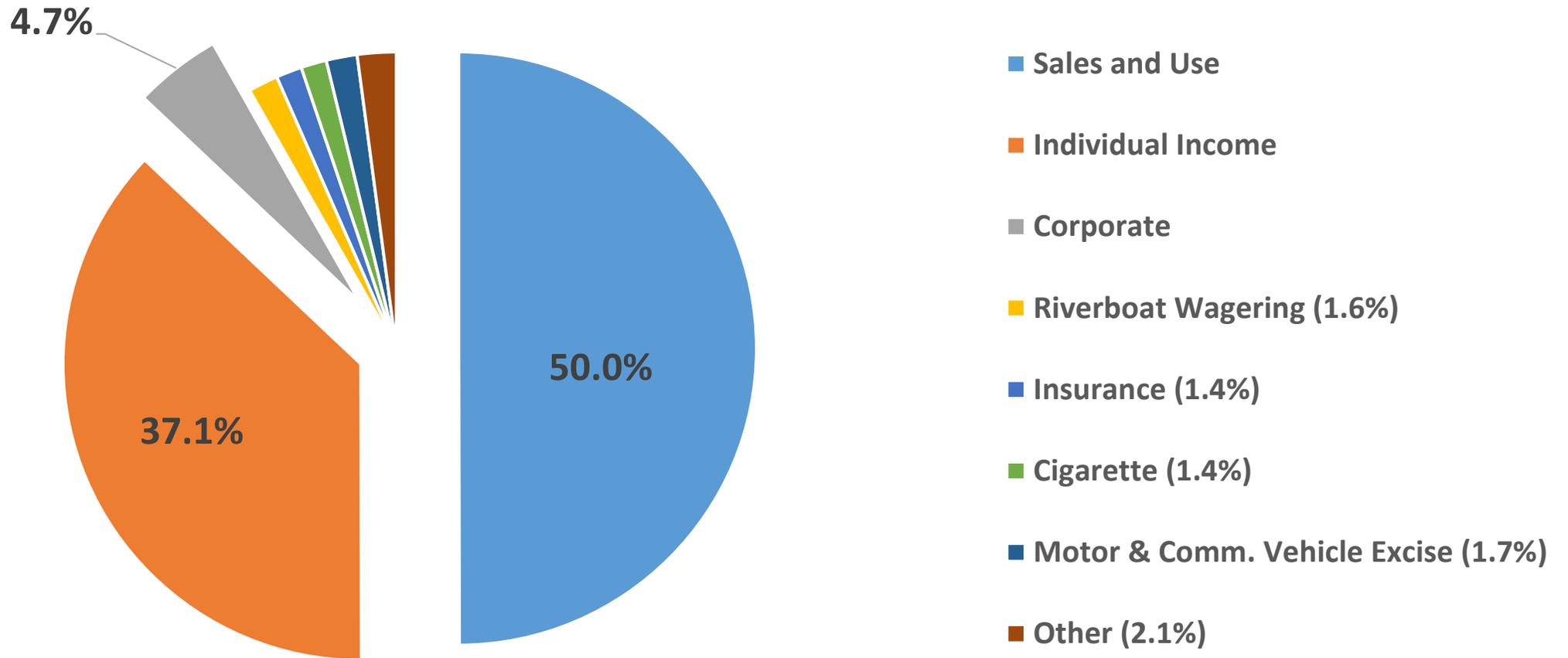
- All state agencies reporting to the Governor followed our base calculations – 15% base reduction
 - This excluded pension contributions, Medicaid, tuition support, and universities
- The 15% base reduction resulted in lowering the overall General Fund base budget by approximately \$665M
- Throughout this process, we have assumed that:
 - FY 2022 General Fund revenues could be \$400M to \$600M less than FY 2021 appropriations
 - FY 2023 General Fund revenues could be +/- \$100M of FY 2021 appropriations

Budget Bill and Budget Report

- IC 4-12-1-9 requires the following deliverables by the 3rd Monday in January for budget development:
 - A budget report with:
 - A statement of budget/fiscal policy,
 - A budget summary of expenditures, revenues, and surpluses/deficits (surplus statement)
 - 2 years of historical spending, current year spending and revenue, and proposed spending and revenue for the new biennium
 - A description of the capital improvement program
 - The budget bill
 - The tax expenditure report
 - A summary and justification for workforce related programs in the recommended budget
 - The budget report must include General Fund, dedicated funds, and federal funds
 - The complete budget report is available online at <https://www.in.gov/sba/2845.htm>

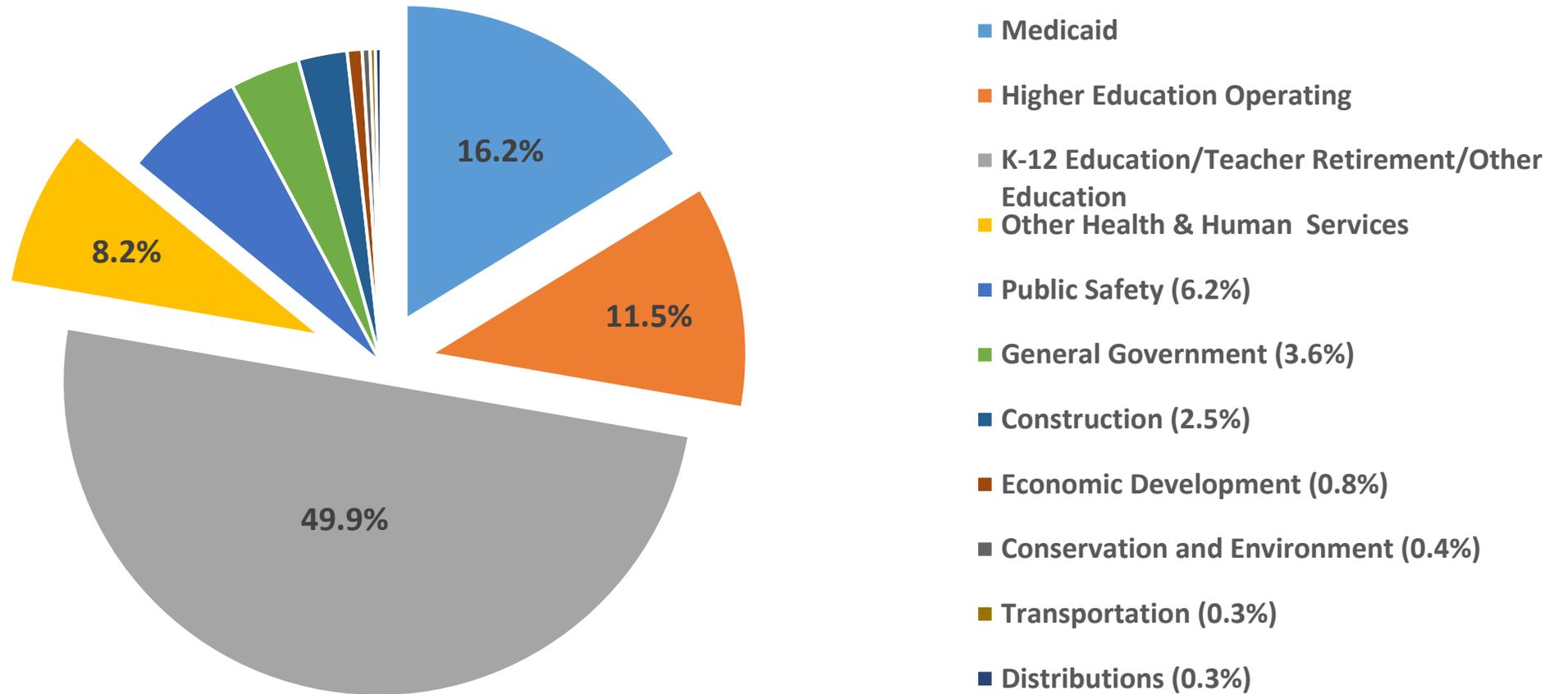
2021-23 General Fund Revenue Summary

Percentage of General Fund Biennial Budget



2022-23 General Fund Expenditure Summary

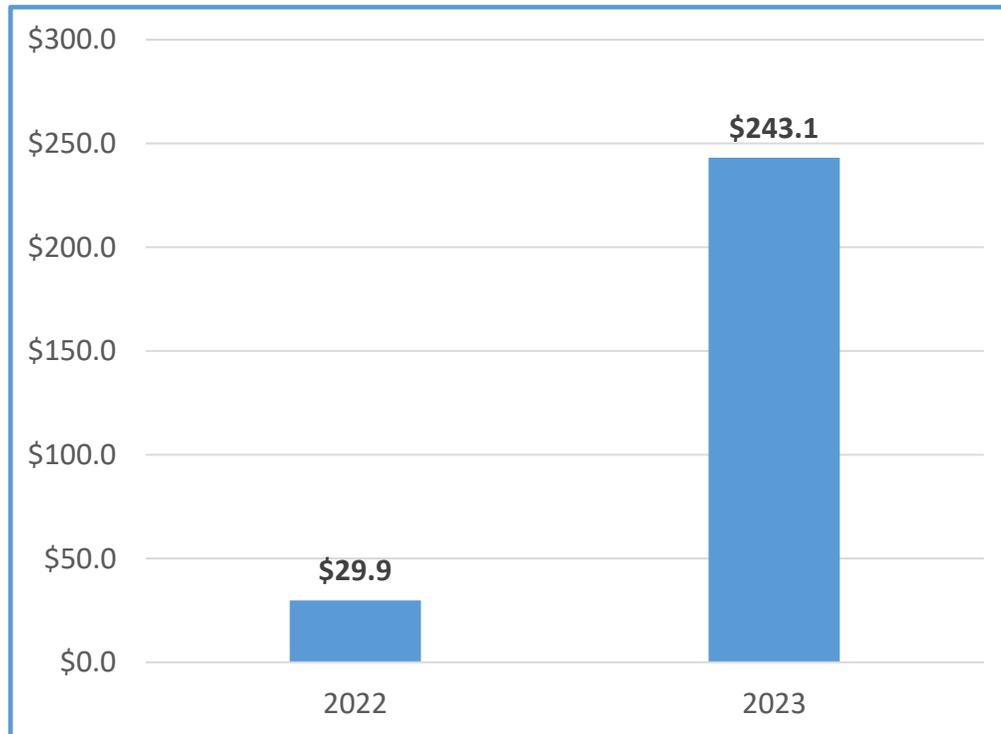
Percentage of General Fund Biennial Budget



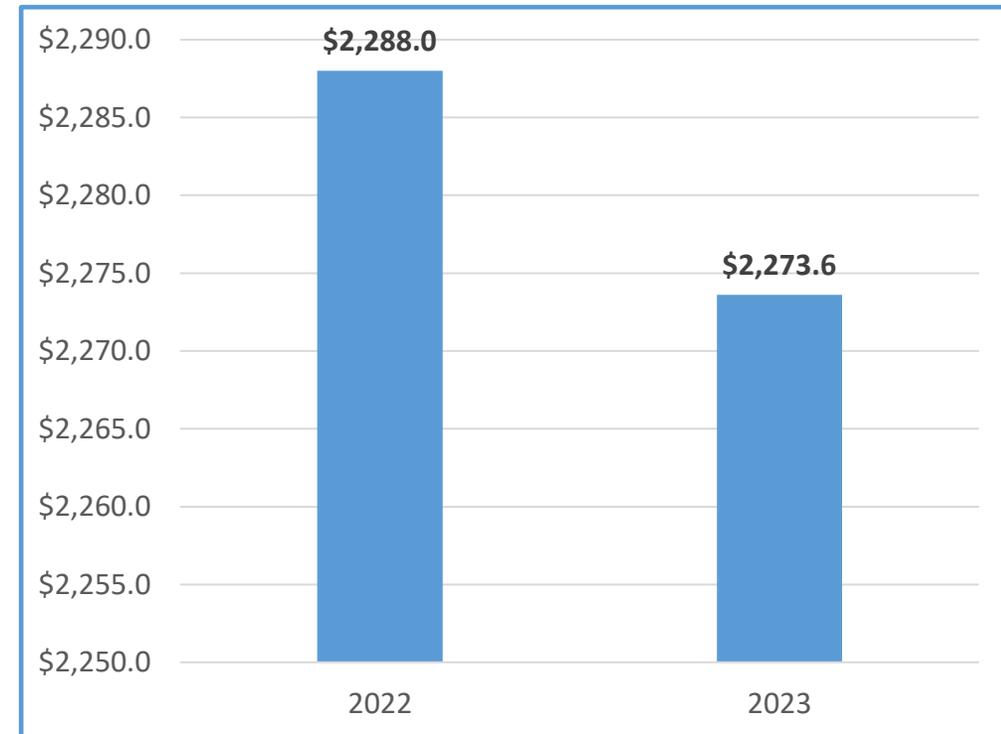
Surplus and Reserve Balances General Fund

Governor's Proposed 2021-23 Budget (\$'s in millions)

- Annual Operating Surplus



- Annual Reserve Balance

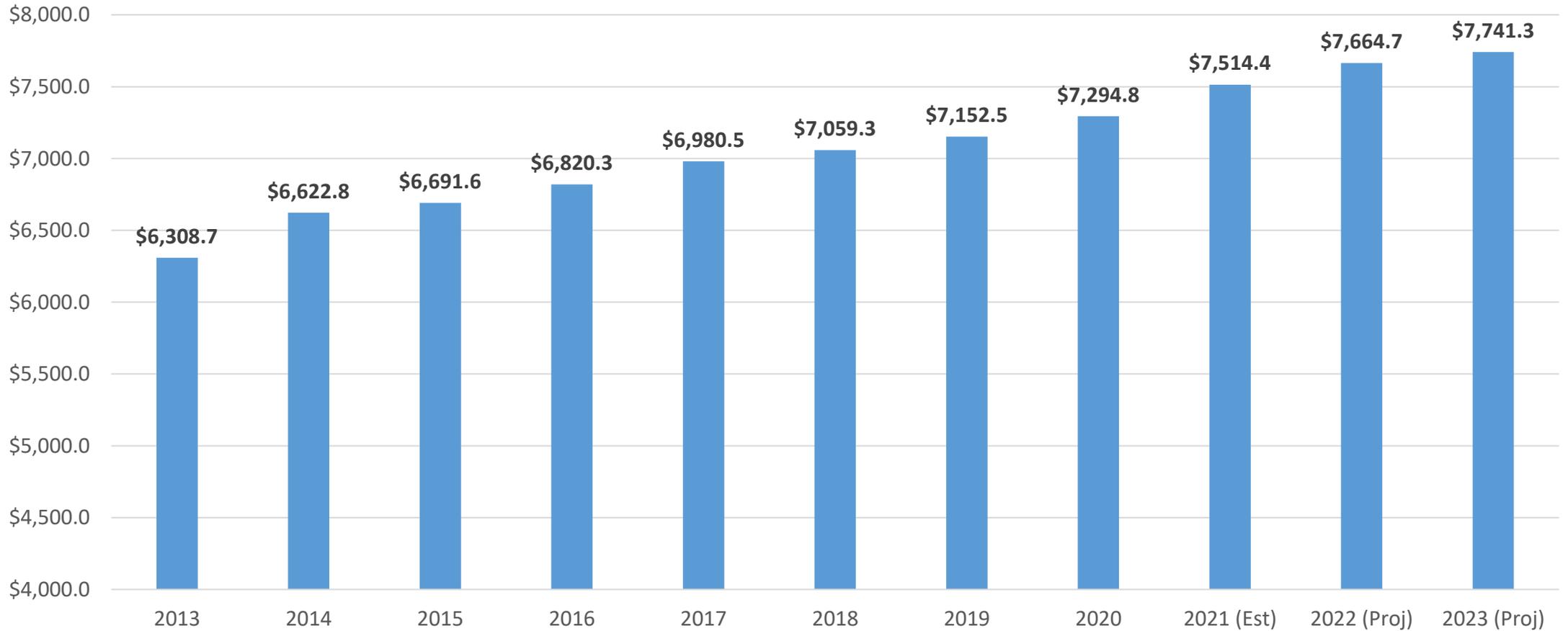


Operating Budget Highlights

- Restored planned cuts for many agency budgets and augmented where needed
- Tuition Support increased 2% in FY22 and 1% in FY23
- Restored Higher Education FY21 reduction with 1% increase in each fiscal year
 - Need-based assistance funded
- Pension obligations funded at required levels
- Medicaid forecast fully funded

Historical Funding of K-12 Tuition Support

\$'s in millions



Other Operating Budget Features

- Created budget for 211 operations now integrated into FSSA
- Dept. of Correction funding realignment and adjustments
 - Merges appropriations for contracted services (medical, food, education)
 - Provides additional \$1 million for county jail prisoner holds
 - Continued funding for Hep C treatment
- Right-sized DCS budget
- Venture Capital Investment Tax Credit adjustments
- IEDC funding for Manufacturing Readiness Grants
- Workforce Ready Grants shifted from CHE to DWD
- Addressed funding cliffs with the TMSF, 21 Fund, Forestry, and ATC

Capital Budget Policy

- It is the policy of the State Budget Agency to put together a Capital Budget that takes care of what we have, finish what we started, and plan for the future.
- We prioritize the funding of Preventive Maintenance (PM) projects that will help prolong the life of Capital assets over line item projects and projects that promotes Capital asset expansion around the State.
- The Budget Agency will continue to make use of and expand its data-driven and quantitative approach to selecting Capital projects consisting of R & R and Line Projects. This approach entails the use of a capital project scoring tool to assist planning of the State's capital priorities.
- More details are available on SBA's website.

Capital Budget Features

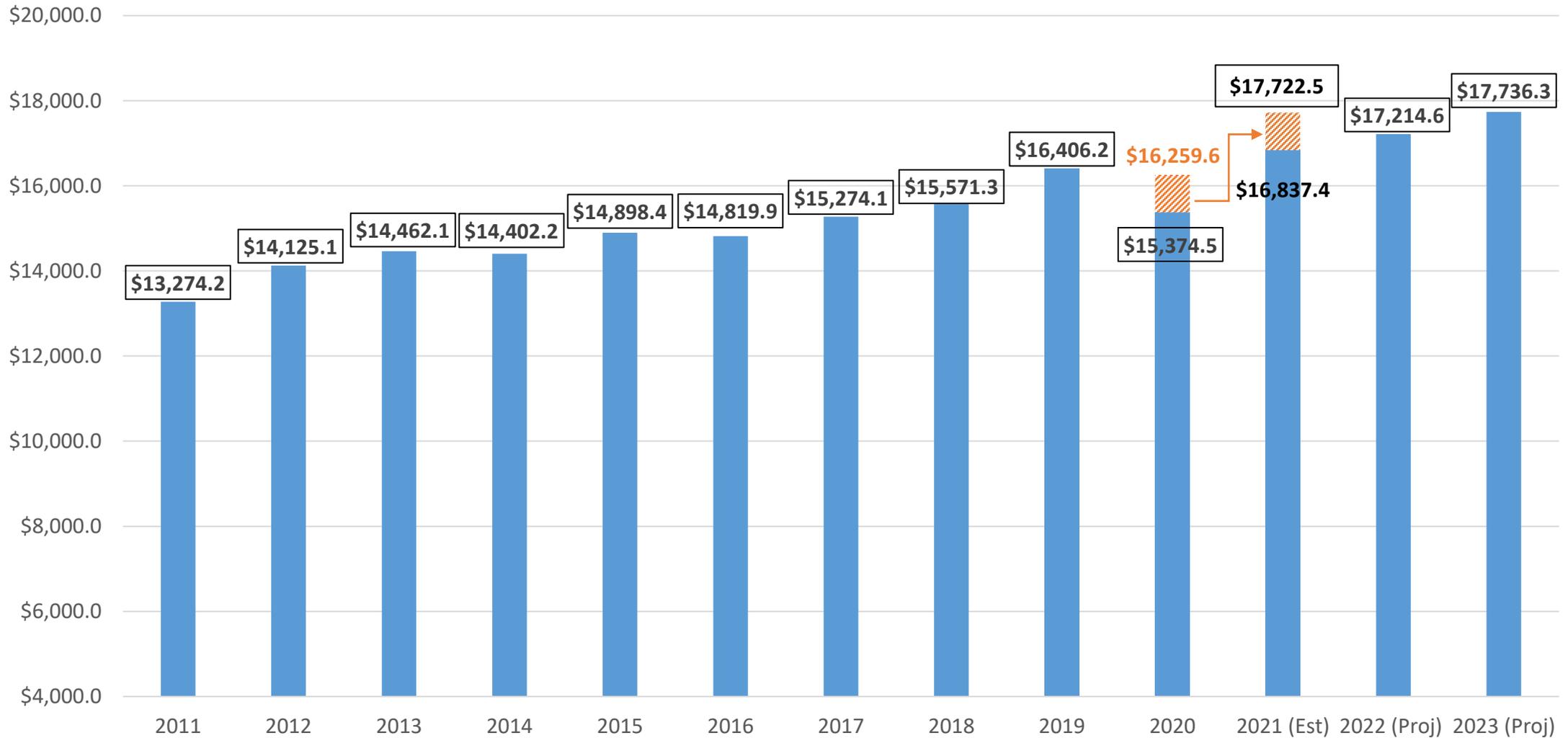
- Continued funding for DOR system modernization
- ISP Lowell Lab/Post completion
- Armory consolidation and replacement-Hamilton County
- Armory additions
 - Danville
 - Martinsville

A Fiscal Journey during a Pandemic

- Immediate and significant volatility
 - Early models of revenue impact were similar or worse than the Great Recession and covered a range of durations



Historical and Projected General Fund Revenue

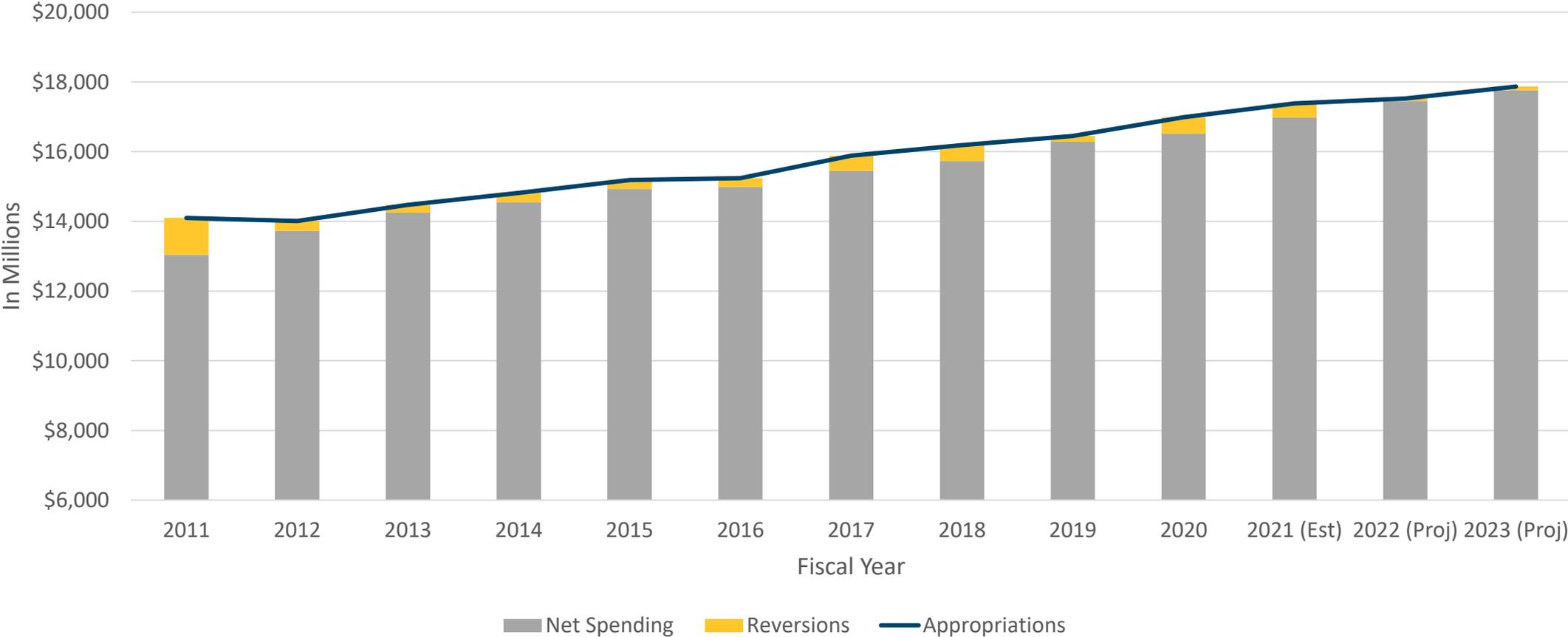


Source: Indiana State Budget Agency Revenue Reports

A Fiscal Journey during a Pandemic-Cont'd.

- Prompt action to prepare for the worst
 - Spending restraint by agencies (\$200 million in FY21)
 - Suspended projects
 - Higher education funding was reduced (\$103 million in FY21)
- Federal Assistance
 - Enhanced Medicaid FMAP (\$200 million in FY21 and \$136 million in FY22)
 - Coronavirus Relief Fund (\$440 million in FY21)

Total Expenditures

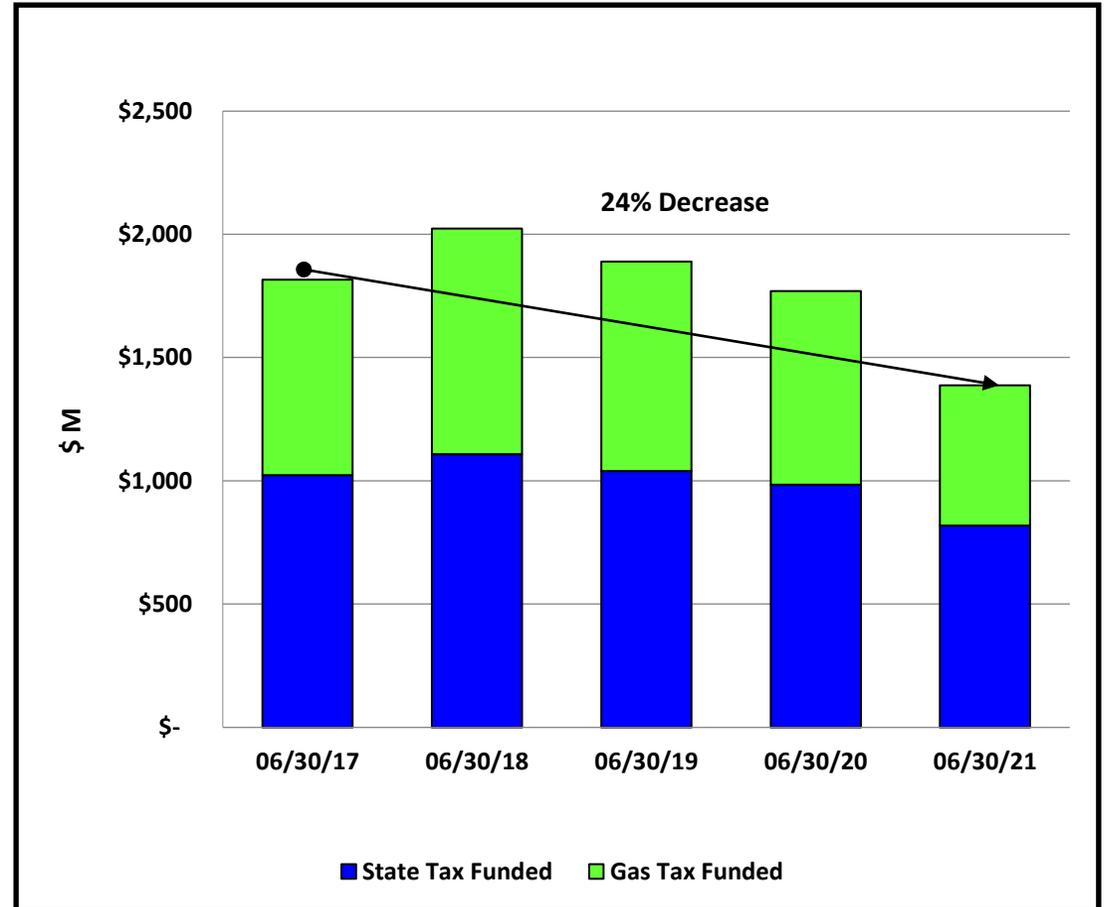


One-time Investment Opportunities

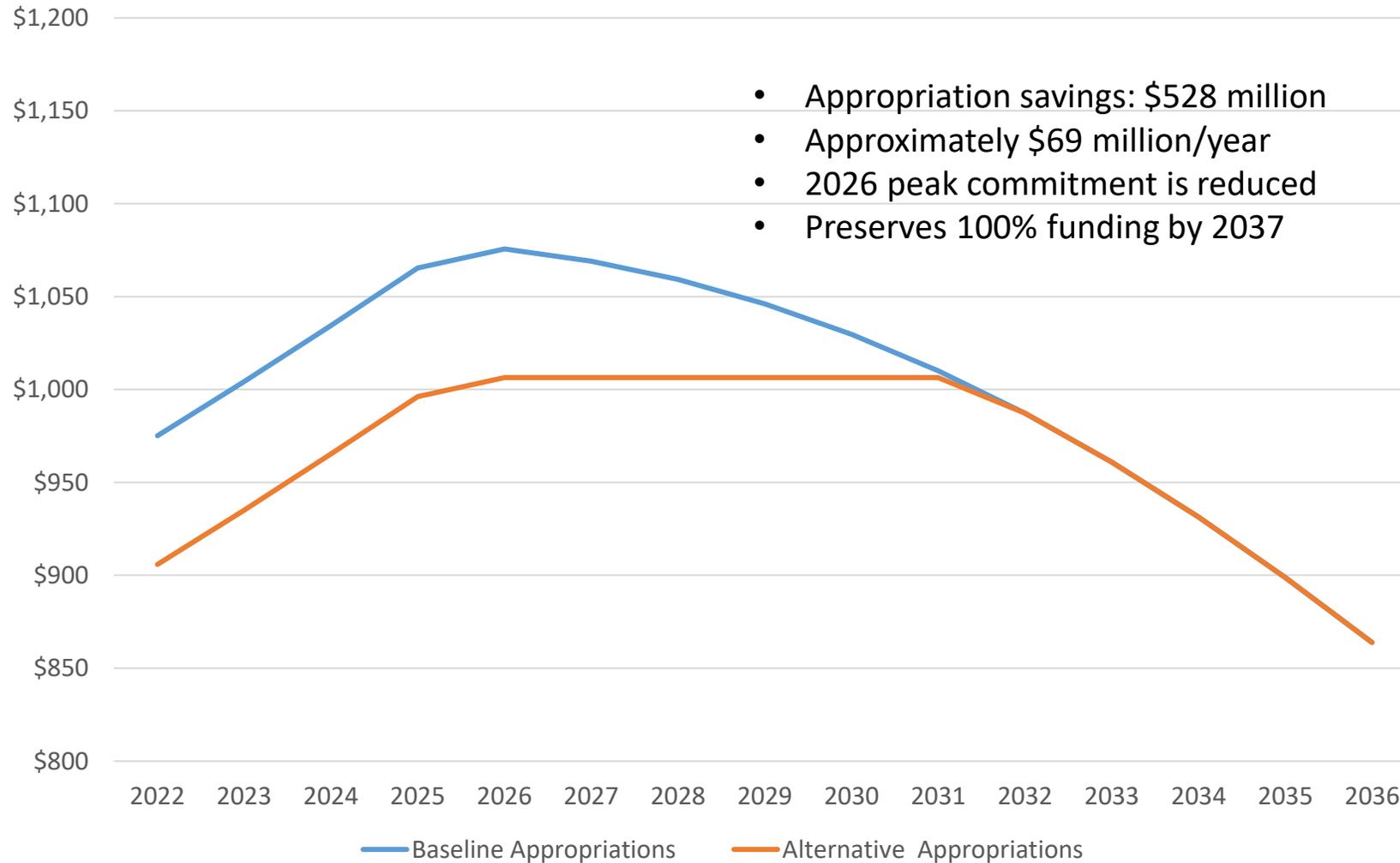
- Restore reserves to pre-pandemic levels and create opportunities for one-time investments which positions the state for continued funding of priorities
- Pre-funding Existing Obligations
 - Debt Retirement (\$302 million in FY21)
 - Contribution to Pre'96 Teacher Retirement (\$400 million in FY21)
- Infrastructure and Capital Investments
 - Continued investment in quality broadband service (\$100 million in FY22)
 - State Fair Fall Creek Pavilion (\$50 million in FY22)
 - Reserve for Future Capital Projects (\$280 million in FY23)

Pre-funding Obligations-Debt

- Various Capital Structures (\$110 million)
 - 3 Hospitals
 - Prison
 - DNR facilities
 - State Fair Coliseum
- Highway Revenue Bonds
 - I-69 Section 5 (\$192 million)



Pre-Funding Obligations-Pre-'96 TRF



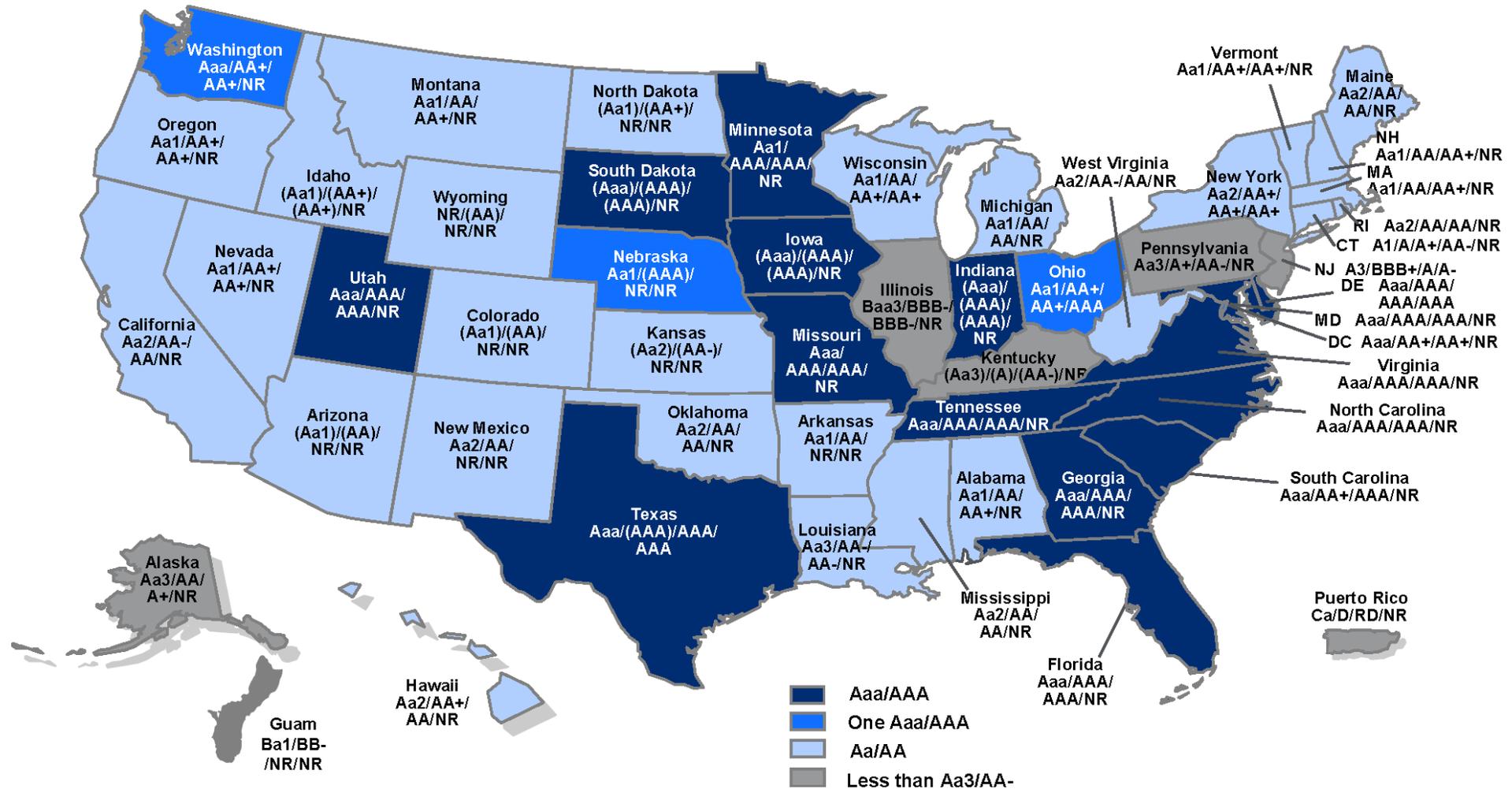
Infrastructure and Capital Investments

- **Broadband**
 - Continue investments started in the Next Level Connections program for improved access to quality service levels at affordable prices
- **State Fair Fall Creek Pavilion**
 - Cash funding authorization
- **Future Capital Projects**
 - Design and construction expenses for projects under study such as:
 - Westville Correctional Facility
 - Indiana Law Enforcement Academy
 - Evansville State Police Post and Lab
 - Co-located campus for Schools for the Deaf and Blind and Visually Impaired

AAA Credit Rating – Strong Position

- AAA credit rating from all three major rating agencies
 - One of 13 states with all three at AAA rating status
- Themes:
 - Strong reserves
 - Active budget/fiscal management
 - Low debt levels
 - Modest economic growth
- High ratings saves the state and school corporations money, serves as a recruitment tool to business and talent that know our financial future is secure

State General Obligation Ratings as of January 2021



Order of Ratings: Moody's/S&P/Fitch/Kroll
 NR: General Obligation Debt is Not Rated
 Fitch RD: Restricted default; indicates an issuer has experienced an uncured payment default on an obligation, but has not entered into a formal winding-up procedure or otherwise ceased operating
 () Indicates issuer credit rating which is equivalent to a General Obligation rating

Sources: Moody's Investors Service, S&P, Fitch Ratings, and Kroll Bond Rating Agency as of January 5, 2021.

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